

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2007

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Interstate 35 Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2006 Election)</b>		
Bret Smith	President	2006
Leah Gray	Vice President	2007
Bruce McCuddin	Board Member	2006
Charles Walters	Board Member	2007
Ken Stanley	Board Member	2008
<b>Board of Education</b>		
<b>(After September 2006 Election)</b>		
Bret Smith	President	2009
Leah Gray	Vice President	2007
Bruce McCuddin	Board Member	2009
Charles Walters	Board Member	2007
Ken Stanley	Board Member	2008
<b>School Officials</b>		
Bill Maske	Superintendent	2007
Lisa Brown	District Secretary	2007
Ahlers and Cooney, P.C.	Attorney	2007

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Interstate 35 Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Interstate 35 Community School District, Truro, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.


We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Interstate 35 Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 11, 2008 on our consideration of the Interstate 35 Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Interstate 35 Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 11, 2008

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Interstate 35 Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$6,295,997 in fiscal 2006 to \$7,244,074 in fiscal 2007, while General Fund expenditures increased from \$5,979,251 in fiscal 2006 to \$6,653,826 in fiscal 2007. This resulted in an increase in the District's General Fund balance from \$125,716 in fiscal 2006 to a balance of \$719,866 in fiscal 2007, a \$594,150 increase from the prior year.
- The District's solvency ratio for fiscal 2006 was 1.9%. The improved health of the General Fund has allowed the solvency ratio for fiscal 2007 to rise to 9.7%.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Interstate 35 Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Interstate 35 Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Interstate 35 Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Interstate 35 Community School District Annual Financial Report**

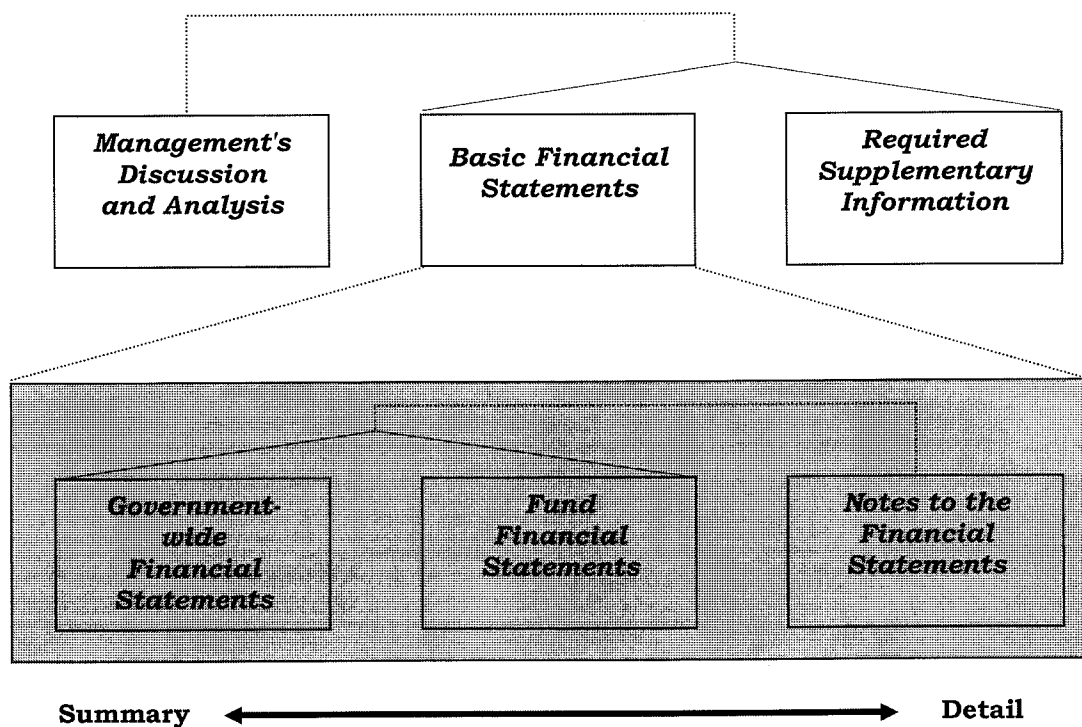


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b> <b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.



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The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-3

	Condensed Statement of Net Assets						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 6,983,523	6,076,779	88,297	60,716	7,071,820	6,137,495	15.22%
Capital assets	9,619,094	9,797,647	110,647	165,360	9,729,741	9,963,007	-2.34%
Total assets	16,602,617	15,874,426	198,944	226,076	16,801,561	16,100,502	4.35%
Long-term obligations	4,464,999	4,794,596	0	0	4,464,999	4,794,596	-6.87%
Other liabilities	5,270,808	5,224,074	14,125	13,016	5,284,933	5,237,090	0.91%
Total liabilities	9,735,807	10,018,670	14,125	13,016	9,749,932	10,031,686	-2.81%
Net assets:							
Invested in capital assets, net of related debt	5,289,094	5,155,105	110,647	165,360	5,399,741	5,320,465	1.49%
Restricted	918,070	628,210	0	0	918,070	628,210	46.14%
Unrestricted	659,646	72,441	74,172	47,700	733,818	120,141	510.80%
Total net assets	\$ 6,866,810	5,855,756	184,819	213,060	7,051,629	6,068,816	16.19%

The District's combined net assets increased by 16.19%, or \$982,813, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$289,860, or 46.14% over the prior year. The increase in restricted net assets is primarily attributable to the increase in fund balance of the Capital Projects Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$613,677, or 510.80%. This increase in unrestricted net assets was primarily a result of the District increase in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 623,918	659,200	275,131	268,693	899,049	927,893	-3.11%
Operating grants and contributions and restricted interest	895,803	777,316	129,115	121,269	1,024,918	898,585	14.06%
General revenues:							
Property tax	2,779,196	2,649,957	0	0	2,779,196	2,649,957	4.88%
Local option sales and services tax	517,626	383,272	0	0	517,626	383,272	35.05%
Unrestricted state grants	3,738,301	3,107,470	0	0	3,738,301	3,107,470	20.30%
Other	201,516	85,958	1,148	668	202,664	86,626	133.95%
Total revenues	8,756,360	7,663,173	405,394	390,630	9,161,754	8,053,803	13.76%
Program expenses:							
Governmental activities:							
Instructional	4,855,019	4,218,658	0	0	4,855,019	4,218,658	15.08%
Support services	2,136,190	2,062,392	34,058	0	2,170,248	2,062,392	5.23%
Non-instructional programs	0	0	399,577	374,162	399,577	374,162	6.79%
Other expenditures	754,097	655,363	0	0	754,097	655,363	15.07%
Total expenses	7,745,306	6,936,413	433,635	374,162	8,178,941	7,310,575	11.88%
Changes in net assets	1,011,054	726,760	(28,241)	16,468	982,813	743,228	32.24%
Beginning net assets	5,855,756	5,128,996	213,060	196,592	6,068,816	5,325,588	13.96%
Ending net assets	\$ 6,866,810	5,855,756	184,819	213,060	7,051,629	6,068,816	16.19%

Property tax and unrestricted state grants account for 74.43% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.72% of the revenue from business type activities.

The District's total revenues were approximately \$9.2 million of which \$8.8 million was for governmental activities and approximately \$0.4 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 13.76% increase in revenues and an 11.88% increase in expenses. The increase in revenues was due to increased local taxes and unrestricted state grant revenues the District received during fiscal 2007. The increase in expenses related to increased costs in negotiated salaries and benefits and programs funded by grants received by the District.

### Governmental Activities

Revenues for governmental activities were \$8,756,360 and expenses were \$7,745,306.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services		Net Cost of Services			
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 4,855,019	4,218,658	15.08%	3,618,297	3,016,019	19.97%
Support services	2,136,190	2,062,392	3.58%	2,135,704	2,062,222	3.56%
Other expenses	754,097	655,363	15.07%	471,584	421,656	11.84%
Totals	<u>\$ 7,745,306</u>	<u>6,936,413</u>	<u>11.66%</u>	<u>6,225,585</u>	<u>5,499,897</u>	<u>13.19%</u>

- The cost financed by users of the District's programs was \$623,918.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$895,803.
- The net cost of governmental activities was financed with \$2,779,196 in property tax, \$517,626 in local option sales and services tax, \$3,738,301 in unrestricted state grants, \$124,213 in interest income.

### Business-Type Activities

Revenues of the District's business-type activities were \$405,394 and expenses were \$433,634. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Interstate 35 Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,739,560, above last year's ending fund balances of \$881,425.

### Governmental Fund Highlights

- The District's improved General Fund financial position from \$125,716 to a balance of \$719,866 is the product of many factors:
  - Increase in state grants and increase in tax levy during the year resulted in an increase in revenues.
  - The increase in revenues was more than the increase in expenditures resulting in a net increase of \$590,150.

### Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$213,060 at June 30, 2006 to \$184,819 at June 30, 2007, representing a decrease of 13.25%.

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## BUDGETARY HIGHLIGHTS

The District's revenues were \$65,964 more than budgeted revenues, a variance of less than 1.0%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2007, the District had invested \$9,729,741, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$442,864.

The original cost of the District's capital assets was \$15.47 million. Governmental funds account for \$15.12 million with the remainder of \$0.35 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$233,871 at June 30, 2007, compared to \$233,761 reported at June 30, 2006. This decrease resulted from current depreciation expense.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 401,200	401,200	0	0	401,200	401,200	0.00%
Buildings	8,659,679	8,901,800	0	0	8,659,679	8,901,800	-2.80%
Land improvements	223,871	233,761	0	0	223,871	233,761	-4.42%
Machinery and equipment	334,344	260,886	110,647	165,360	444,991	426,246	4.21%
Total	\$ 9,619,094	9,797,647	110,647	165,360	9,729,741	9,963,007	-2.40%

### Long-Term Debt

At June 30, 2007, the District had \$4,464,999 in general obligation and other long-term debt outstanding. This represents a decrease of 6.9% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$4,330,000 at June 30, 2007.

The District had total outstanding Early Retirement payable from the Special Revenue - Management Fund of \$119,788 at June 30, 2007.

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The District had total outstanding Compensated Absences payable from the General Fund of \$15,211 at June 30, 2007.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2007	2006	
General Obligation Bonds	\$ 4,330,000	4,705,000	-8.0%
Early Retirement	119,788	81,005	47.9%
Compensated Absences	15,211	8,591	77.1%
	<u>\$ 4,464,999</u>	<u>4,794,596</u>	<u>-6.9%</u>

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lisa Brown, Board Secretary, Interstate 35 Community School District, P.O. Box 79, Truro, Iowa, 50257.

BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP(Note 3)	\$ 1,356,482	0	1,356,482
Other	2,150,157	83,868	2,234,025
Receivables:			
Property tax:			
Delinquent	50,911	0	50,911
Succeeding year	3,095,597	0	3,095,597
Accounts	37,837	0	37,837
Accrued ISCAP interest (Note 3)	70,935	0	70,935
Due from other governments	221,604	0	221,604
Inventories	0	4,429	4,429
Capital assets, net of accumulated depreciation (Note 4)	9,619,094	110,647	9,729,741
<b>TOTAL ASSETS</b>	<b>16,602,617</b>	<b>198,944</b>	<b>16,801,561</b>
<b>LIABILITIES</b>			
Accounts payable	158,871	0	158,871
Salaries and benefits payable	563,659	11,370	575,029
ISCAP warrants payable (Note 3)	1,359,000	0	1,359,000
ISCAP interest payable (Note 3)	58,355	0	58,355
ISCAP unamortized premium	8,481	0	8,481
Interest payable	26,845	0	26,845
Deferred revenue:			
Succeeding year property tax	3,095,597	0	3,095,597
Unearned revenue	0	2,755	2,755
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds payable	385,000	0	385,000
Early retirement payable	73,984	0	73,984
Compensated absences payable	15,211	0	15,211
Portion due after one year:			
General obligation bonds payable	3,945,000	0	3,945,000
Early retirement payable	45,804	0	45,804
<b>TOTAL LIABILITIES</b>	<b>9,735,807</b>	<b>14,125</b>	<b>9,749,932</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	5,289,094	110,647	5,399,741
Restricted for:			
Talented and gifted	11,885	0	11,885
Beginning teacher mentoring	273	0	273
Market factor	6,006	0	6,006
Management levy	71,870	0	71,870
Physical plant and equipment levy	11,101	0	11,101
Capital projects	627,093	0	627,093
Debt service	91,141	0	91,141
Other special revenue purposes	98,701	0	98,701
Unrestricted	659,646	74,172	733,818
<b>TOTAL NET ASSETS</b>	<b>\$ 6,866,810</b>	<b>184,819</b>	<b>7,051,629</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,933,476	352,226	556,280	(2,024,970)	0	(2,024,970)
Special instruction	1,271,684	35,286	55,810	(1,180,588)	0	(1,180,588)
Other instruction	649,859	235,920	1,200	(412,739)	0	(412,739)
	<u>4,855,019</u>	<u>623,432</u>	<u>613,290</u>	<u>(3,618,297)</u>	<u>0</u>	<u>(3,618,297)</u>
Support services:						
Student services	124,138	0	0	(124,138)	0	(124,138)
Instructional staff services	55,919	0	0	(55,919)	0	(55,919)
Administration services	885,228	0	0	(885,228)	0	(885,228)
Operation and maintenance of plant services	633,301	0	0	(633,301)	0	(633,301)
Transportation services	437,604	486	0	(437,118)	0	(437,118)
	<u>2,136,190</u>	<u>486</u>	<u>0</u>	<u>(2,135,704)</u>	<u>0</u>	<u>(2,135,704)</u>
Other expenditures:						
Facilities acquisitions	40,877	0	0	(40,877)	0	(40,877)
Long-term debt interest	168,072	0	0	(168,072)	0	(168,072)
AEA flowthrough	282,513	0	282,513	0	0	0
Depreciation (unallocated)*	262,635	0	0	(262,635)	0	(262,635)
	<u>754,097</u>	<u>0</u>	<u>282,513</u>	<u>(471,584)</u>	<u>0</u>	<u>(471,584)</u>
Total governmental activities	7,745,306	623,918	895,803	(6,225,585)	0	(6,225,585)
Business-Type activities:						
Support services:						
Administration services	34,058	0	0	0	(34,058)	(34,058)
Non-instructional programs:						
Nutrition services	399,577	275,131	129,115	0	4,669	4,669
Total business-type activities	<u>433,635</u>	<u>275,131</u>	<u>129,115</u>	<u>0</u>	<u>(29,389)</u>	<u>(29,389)</u>
Total	<u>\$ 8,178,941</u>	<u>899,049</u>	<u>1,024,918</u>	<u>(6,225,585)</u>	<u>(29,389)</u>	<u>(6,254,974)</u>
General Revenues:						
Property tax for:						
General purposes				\$ 2,184,499	0	2,184,499
Capital outlay				50,678	0	50,678
Debt service				544,019	0	544,019
Local option sales and services tax				517,626	0	517,626
Unrestricted state grants				3,738,301	0	3,738,301
Unrestricted investment earnings				124,213	1,148	125,361
Gain on sale of capital assets				3,902	0	3,902
Other				73,401	0	73,401
Total general revenues				<u>7,236,639</u>	<u>1,148</u>	<u>7,237,787</u>
Changes in net assets				1,011,054	(28,241)	982,813
Net assets beginning of year				5,855,756	213,060	6,068,816
Net assets end of year				<u>\$ 6,866,810</u>	<u>184,819</u>	<u>7,051,629</u>

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and pooled investments				
ISCAP(Note 3)	\$ 1,356,482	0	0	1,356,482
Other	1,347,343	421,457	381,357	2,150,157
Receivables:				
Property tax				
Delinquent	37,392	0	13,519	50,911
Succeeding year	2,349,682	0	745,915	3,095,597
Accounts	37,837	0	0	37,837
Accrued ISCAP interest (Note 3)	70,935	0	0	70,935
Due from other governments	3,024	218,580	0	221,604
<b>TOTAL ASSETS</b>	<b>\$ 5,202,695</b>	<b>640,037</b>	<b>1,140,791</b>	<b>6,983,523</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 143,652	12,944	2,275	158,871
Salaries and benefits payable	563,659	0	0	563,659
ISCAP warrants payable (Note 3)	1,359,000	0	0	1,359,000
ISCAP interest payable (Note 3)	58,355	0	0	58,355
ISCAP unamortized premium	8,481	0	0	8,481
Deferred revenue:				
Succeeding year property tax	2,349,682	0	745,915	3,095,597
Total liabilities	4,482,829	12,944	748,190	5,243,963
Fund balances:				
Reserved for:				
Debt service	0	0	91,141	91,141
Talented and gifted	11,885	0	0	11,885
Beginning teacher mentoring	273	0	0	273
Market factor	6,006	0	0	6,006
Unreserved	701,702	627,093	301,460	1,630,255
Total fund balances	719,866	627,093	392,601	1,739,560
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 5,202,695</b>	<b>640,037</b>	<b>1,140,791</b>	<b>6,983,523</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2007

<b>Total fund balances of governmental funds (page 15)</b>	\$ 1,739,560
<b><i>Amounts reported for governmental activities in the statement of net assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	9,619,094
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(26,845)
Long-term liabilities, including general obligation bonds, early retirement and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(4,464,999)</u>
<b>Net assets of governmental activites (page 13)</b>	<u><u>\$ 6,866,810</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 2,041,245	517,626	737,951	3,296,822
Tuition	322,459	0	0	322,459
Other	248,046	6,337	245,890	500,273
Intermediate sources	9,691	0	0	9,691
State sources	4,453,408	0	580	4,453,988
Federal sources	169,225	0	0	169,225
Total revenues	7,244,074	523,963	984,421	8,752,458
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	2,858,201	0	71,328	2,929,529
Special instruction	1,271,565	0	0	1,271,565
Other instruction	443,131	0	230,670	673,801
	4,572,897	0	301,998	4,874,895
Support services:				
Student services	124,138	0	0	124,138
Instructional staff services	55,002	0	0	55,002
Administration services	723,541	0	136,776	860,317
Operation and maintenance of plant services	430,695	209,177	0	639,872
Transportation services	465,040	0	0	465,040
	1,798,416	209,177	136,776	2,144,369
Other expenditures:				
Facilities acquisitions	0	51,501	0	51,501
Long-term debt:				
Principal	0	0	375,000	375,000
Interest	0	0	169,947	169,947
AEA flowthrough	282,513	0	0	282,513
	282,513	51,501	544,947	878,961
Total expenditures	6,653,826	260,678	983,721	7,898,225
Net change in fund balance	590,248	263,285	700	854,233
<b>OTHER FINANCING SOURCES:</b>				
Sale of equipment	3,902	0	0	3,902
Net change in fund balance	594,150	263,285	700	858,135
Fund balance beginning of year	125,716	363,808	391,901	881,425
Fund balance end of year	\$ 719,866	627,093	392,601	1,739,560

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds(page 17) \$ 858,135

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year are as follows:

Expenditures for capital assets	\$ 166,627	
Depreciation expense	<u>(345,180)</u>	(178,553)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 375,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 1,875

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	\$ (38,783)	
Compensated absences	<u>(6,620)</u>	(45,403)

Changes in net assets of governmental activities(page 14) \$ 1,011,054

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2007

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 83,868
Inventories	4,429
Capital assets, net of accumulated depreciation (Note 4)	<u>110,647</u>
TOTAL ASSETS	<u>198,944</u>
LIABILITIES	
Salaries and benefits payable	11,370
Unearned revenues	<u>2,755</u>
TOTAL LIABILITIES	<u>14,125</u>
NET ASSETS	
Invested in capital assets	110,647
Unrestricted	<u>74,172</u>
TOTAL NET ASSETS	<u><u>\$ 184,819</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUND  
 YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	<u>\$ 275,131</u>
OPERATING EXPENSES:	
Support services:	
Administration services:	
Salaries	<u>34,058</u>
Non-instructional programs:	
Food service operations:	
Salaries	100,090
Benefits	51,977
Services	3,308
Supplies	144,931
Depreciation	97,684
Other	1,587
Total non-instructional programs	<u>399,577</u>
TOTAL OPERATING EXPENSES	<u>433,635</u>
OPERATING LOSS	<u>(158,504)</u>
NON-OPERATING REVENUES:	
State sources	4,702
Federal sources	124,413
Interest income	1,148
TOTAL NON-OPERATING REVENUES	<u>130,263</u>
Change in net assets	(28,241)
Net assets beginning of year	<u>213,060</u>
Net assets end of year	<u><u>\$ 184,819</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 274,480
Cash payments to employees for services	(184,365)
Cash payments to suppliers for goods or services	(133,646)
Net cash used in operating activities	<u>(43,531)</u>
Cash flows from non-capital financing activities:	
State grants received	4,702
Federal grants received	107,449
Net cash provided by non-capital financing activities	<u>112,151</u>
Cash flows from capital financing activities:	
Purchase of assets	<u>(42,971)</u>
Cash flows from investing activities:	
Interest on investments	<u>1,148</u>
Net increase in cash and cash equivalents	26,797
Cash and cash equivalents at beginning of year	<u>57,071</u>
Cash and cash equivalents at end of year	<u>\$ 83,868</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (158,504)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	16,964
Depreciation	97,684
Increase in inventories	(784)
Increase in salaries and benefits payable	1,760
Decrease in deferred revenue	(651)
Net cash used in operating activities	<u>\$ (43,531)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 83,868</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received  
Federal commodities valued at \$16,964.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

**(1) Summary of Significant Accounting Policies**

The Interstate 35 Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education and regular pre-kindergarten. The geographic area served includes the City of Truro, New Virginia and St. Charles, Iowa, and the predominate agricultural territory in Madison, Clarke and Warren Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Interstate 35 Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Interstate 35 Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Madison, Clarke and Warren Counties Assessors' Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating

revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

**(2) Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 416,994

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

**(3) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/06	6/28/07	\$ 0	62,044	0	50,797
2006-07B	1/26/07	1/25/08	381,026	8,600	382,000	7,309
2007-08A	6/27/07	6/27/08	975,456	291	977,000	249
Total			\$ 1,356,482	70,935	1,359,000	58,355

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity in the General Fund for the year ended June 30, 2007 was noted.

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2006-07B	4.250%	5.315%
2007-08A	4.500%	5.455%

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 401,200	0	0	401,200
Total capital assets not being depreciated	401,200	0	0	401,200
Capital assets being depreciated:				
Buildings	12,113,589	0	0	12,113,589
Land improvements	519,874	10,624	0	530,498
Machinery and equipment	1,919,963	156,003	2,946	2,073,020
Total capital assets being depreciated	14,553,426	166,627	2,946	14,717,107
Less accumulated depreciation for:				
Buildings	3,211,789	242,121	0	3,453,910
Land improvements	286,113	20,514	0	306,627
Machinery and equipment	1,659,077	82,545	2,946	1,738,676
Total accumulated depreciation	5,156,979	345,180	2,946	5,499,213
Total capital assets being depreciated, net	9,396,447	(178,553)	0	9,217,894
Governmental activities capital assets, net	\$ 9,797,647	(178,553)	0	9,619,094
Business-type activities:				
Machinery and equipment	\$ 310,009	42,971	0	352,980
Less accumulated depreciation	144,649	97,684	0	242,333
Business-type activities capital assets, net	\$ 165,360	(54,713)	0	110,647



Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$	14,342
Special		119
Other		13,510

Support services:

Instructional staff		917
Administration		422
Operation and maintenance of plant		4,019
Transportation		49,216

Unallocated depreciation

82,545  
262,635

Total governmental activities depreciation expense

\$ 345,180

Business-type activities:

Food services	\$	97,684
---------------	----	--------

**(5) Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 4,705,000	0	375,000	4,330,000	385,000
Early Retirement	81,005	73,119	34,336	119,788	73,984
Compensated Absences	8,591	15,211	8,591	15,211	15,211
	\$ 4,794,596	88,330	417,927	4,464,999	474,195

General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of December 1, 2002			
	Interest Rates	Principal	Interest	Total
2008	3.00-3.25 %	\$ 385,000	158,223	543,223
2009	3.20-3.25	400,000	145,785	545,785
2010	3.20-3.45	410,000	132,935	542,935
2011	3.45-3.65	425,000	118,867	543,867
2012	3.65-3.70	440,000	103,474	543,474
2013	3.70-3.85	460,000	87,062	547,062
2014	3.85-4.00	475,000	69,329	544,329
2015	4.00-4.10	495,000	50,305	545,305
2016	4.10-4.20	515,000	30,030	545,030
2017	4.20-4.30	325,000	9,575	334,575
Total		\$ 4,330,000	905,585	5,235,585

#### Early Retirement

The District offers a voluntary early retirement plan to its certified and non-certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement cash incentive for each eligible employee is equal to 1% of the previous year contract times each year of employment. The District also pays \$25 for each unused sick day. The retiree also receives a health insurance incentive for a period of up to three years, but before the retiree reaches age sixty-five. Early retirement benefits paid during the year ended June 30, 2007, totaled \$34,336. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

#### **(6) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$204,521, \$199,523 and \$195,267 respectively, equal to the required contributions for each year.

**(7) Risk Management**

The District is a member in the Iowa School Employees Benefits Association (ISEBA), and Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2007 were \$849,469.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$282,513 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007

	Governmental	Proprietary		Budgeted Amounts		Final to
	Funds	Fund	Total			Actual
	Actual	Actual	Actual	Original	Final	Variance
Revenues:						
Local sources	\$ 4,119,554	276,279	4,395,833	4,103,910	4,103,910	291,923
Intermediate sources	9,691	0	9,691	1,000	1,000	8,691
State sources	4,453,988	4,702	4,458,690	4,698,978	4,698,978	(240,288)
Federal sources	169,225	124,413	293,638	288,000	288,000	5,638
Total revenues	8,752,458	405,394	9,157,852	9,091,888	9,091,888	65,964
Expenditures:						
Instruction	4,874,895	0	4,874,895	5,343,491	5,343,491	468,596
Support services	2,144,369	34,058	2,178,427	2,720,946	2,720,946	542,519
Non-instructional programs	0	399,576	399,576	549,792	549,792	150,216
Other expenditures	878,961	0	878,961	1,284,197	1,284,197	405,236
Total expenditures	7,898,225	433,634	8,331,859	9,898,426	9,898,426	1,566,567
Excess(deficiency) of revenues over(under) expenditures	854,233	(28,240)	825,993	(806,538)	(806,538)	1,632,531
Other financing sources, net	3,902	0	3,902	1,000	1,000	2,902
Excess(deficiency) of revenues and other financing sources over(under) expenditures	858,135	(28,240)	829,895	(805,538)	(805,538)	1,635,433
Balance beginning of year	881,425	213,059	1,094,484	551,889	551,889	542,595
Balance end of year	\$ 1,739,560	184,819	1,924,379	(253,649)	(253,649)	2,178,028

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2007

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 189,034	100,976	10,172	300,182	81,175	381,357
Receivables:						
Property tax:						
Delinquent	2,624	0	929	3,553	9,966	13,519
Succeeding year property tax	150,000	0	52,192	202,192	543,723	745,915
TOTAL ASSETS	\$ 341,658	100,976	63,293	505,927	634,864	1,140,791
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 0	2,275	0	2,275	0	2,275
Deferred revenue:						
Succeeding year property tax	150,000	0	52,192	202,192	543,723	745,915
	150,000	2,275	52,192	204,467	543,723	748,190
Fund balances:						
Reserved for Debt Service	0	0	0	0	91,141	91,141
Unreserved, undesignated	191,658	98,701	11,101	301,460	0	301,460
	191,658	98,701	11,101	301,460	91,141	392,601
TOTAL LIABILITIES AND FUND BALANCES	\$ 341,658	100,976	63,293	505,927	634,864	1,140,791

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds				Total	
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 143,254	0	50,678	193,932	544,019	737,951
Other	8,306	237,120	0	245,426	464	245,890
State sources	113	0	40	153	427	580
TOTAL REVENUES	151,673	237,120	50,718	439,511	544,910	984,421
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	71,328	0	0	71,328	0	71,328
Other instruction	0	230,670	0	230,670	0	230,670
Support services:						
Administration	136,776	0	0	136,776	0	136,776
Other expenditures:						
Long-term debt:						
Principal	0	0	0	0	375,000	375,000
Interest	0	0	0	0	169,947	169,947
TOTAL EXPENDITURES	208,104	230,670	0	438,774	544,947	983,721
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(56,431)	6,450	50,718	737	(37)	700
FUND BALANCE BEGINNING OF YEAR	248,089	92,251	(39,617)	300,723	91,178	391,901
FUND BALANCE END OF YEAR	\$ 191,658	98,701	11,101	301,460	91,141	392,601

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Speech	\$ 900	0	409	491
HS Vocal	699	5,672	4,505	1,866
HS Band	2,107	2,220	2,875	1,452
Co-ed athletic gates	0	16,603	11,279	5,324
Cross Country	365	519	545	339
Golf	0	2,780	2,972	(192)
HS Cheerleaders	895	5,709	4,956	1,648
Dance Team	2,532	4,766	3,213	4,085
Boys Basketball	299	7,235	6,951	583
Football	(2,021)	5,491	11,796	(8,326)
Baseball	(176)	2,029	3,127	(1,274)
Baseball Fundraising	957	5,731	5,051	1,637
Boys Track	1,553	1,221	1,482	1,292
Wrestling	(677)	9,820	11,929	(2,786)
Girls Basketball	2,412	3,753	5,685	480
Girls Basketball Fundraising	592	0	0	592
Volleyball	964	7,037	7,112	889
Softball	412	2,386	2,127	671
Girls Track	3,124	4,278	4,645	2,757
HS General Athletics	3,201	12,352	8,207	7,346
JH Athletics	263	6,759	6,358	664
Booster Club	11,278	44,036	42,073	13,241
AED Grant	308	0	29	279
Athletic Complex	1,499	0	0	1,499
Interest	2,663	0	2,663	0
Uniform Fund	2,338	4,876	3,326	3,888
TAG Activity Fund Balance	819	484	518	785
Honor Society	776	981	844	913
HS Student Council	2,678	5,324	2,492	5,510
FFA	2,256	10,120	9,736	2,640
FCCLA	371	693	579	485
Art Club	262	0	250	12
HS Book Club	228	60	46	242
Senior Breakfast	264	118	69	313
Band Entry Fees	201	0	122	79
Middle School Band	1,374	1,438	910	1,902
Vocal Entry Fees	435	0	109	326
7th and 8th Vocal	484	1,340	1,018	806
Elem Vocal	161	187	179	169
Class of 2005	0	540	0	540
Class of 2006	179	0	179	0
Class of 2007	1,362	30	1,061	331
Class of 2008	2,244	1,255	2,565	934
Class of 2009	285	1,307	162	1,430
Candy	730	2,058	1,242	1,546
Beep Club	2,231	3,439	3,106	2,564
Unreserved-Fund Balance Preschool	183	6,328	5,233	1,278
Elementary Classes	17,256	23,311	22,290	18,277
EL/MS Fundraising	4,334	4,552	8,629	257
Middle School Classes	6,993	11,071	5,351	12,713
JH Student Council	9,658	7,211	10,665	6,204
	<u>\$ 92,251</u>	<u>237,120</u>	<u>230,670</u>	<u>98,701</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

Modified Accrual Basis				
Years Ended June 30,				
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 3,296,822	3,033,229	2,961,634	2,503,938
Tuition	322,459	283,603	230,110	188,971
Other	500,273	458,751	415,118	345,482
Intermediate sources	9,691	3,663	180	860
State sources	4,453,988	3,711,595	3,534,845	3,343,852
Federal sources	169,225	172,332	172,013	125,386
Total	<u>\$ 8,752,458</u>	<u>7,663,173</u>	<u>7,313,900</u>	<u>6,508,489</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,929,529	2,593,367	2,566,745	2,453,170
Special instruction	1,271,565	879,648	1,054,796	843,303
Other instruction	673,801	677,564	552,769	539,517
Support services:				
Student services	124,138	170,046	177,068	174,280
Instructional staff services	55,002	48,296	37,662	73,135
Administration services	860,317	872,124	786,083	670,130
Operation and maintenance of plant services	639,872	658,572	676,195	553,359
Transportation services	465,040	447,807	484,531	458,525
Other expenditures:				
Facilities acquisitions	51,501	52,552	80,903	510
Long-term debt:				
Principal	375,000	365,000	355,000	350,000
Interest and fiscal charges	169,947	180,522	189,391	196,648
AEA flow-through	282,513	233,707	222,803	216,931
Total	<u>\$ 7,898,225</u>	<u>7,179,205</u>	<u>7,183,946</u>	<u>6,529,508</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

(a professional corporation)

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Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

To the Board of Education of the  
Interstate 35 Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Interstate 35 Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 11, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Interstate 35 Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Interstate 35 Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Interstate 35 Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Interstate 35 Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Interstate 35 Community School District's financial statements that is more than inconsequential will not be prevented or detected by Interstate 35 Community School District's internal control. We consider the deficiencies in internal control described in Part I of the Findings Related to the General Purpose Financial Statements.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Interstate 35 Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Interstate 35 Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Interstate 35 Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Interstate 35 Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Interstate 35 Community School District and other parties to whom Interstate 35 Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Interstate 35 Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 11, 2008

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-07 Miscoding of Accounts - We noted during our audit that accounts for some state and federal grants did not conform to the Uniform Financial Accounting Chart of Accounts.

Recommendation - The District should utilize the Iowa Department of Education's Uniform Financial Accounting for Iowa LEAs and AEAs Manual which provides project codes for the specific State and Federal grants. With the use of these codes, the District would be able to prepare final reports with greater accuracy.

Response - We will review the Uniform Financial Accounting Manual and utilize the software to code state and federal grant revenues and expenditures to the appropriate accounts.

Conclusion - Response accepted.

- I-C-07 Purchase Orders - We noted during our audit that in the Student Activity Fund several purchase orders were dated after the invoice for the product purchased. Purchase orders are typically used to document approval prior to the purchase as well as documenting which account will be paying for the invoice.

Recommendation - The District should review procedures in place with regard to use of purchase orders, placing the order and subsequent payment. The District should require purchase orders be completed prior to ordering. With the proper use of purchase orders, the District can ensure that purchases are properly approved and authorized before purchasing.

Response - We will review with employees the importance of having purchase orders done properly and approved by the proper personnel before purchases are made.

Conclusion - Response accepted.

I-D-07 Payroll Procedures - We noted during our audit that wage per hour for certain employees were changed in the payroll system, but the amounts did not match what was on the employees' contracts. We also noted that the District was not paying coaching contracts with the frequency stated on contracts.

Recommendation - The District should review payroll procedures and make certain pay rates between the contracts reconcile to the District's payroll system.

Response - The District will review procedures and modify as necessary to ensure pay rates and times reconcile between the contracts and the payroll system.

Conclusion - Response accepted.

I-E-07 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). Instances of questioned items and recommendations are as follows:

Donations from Target were recorded in the Student Activity Fund. Target donations do not specify the purpose, other than instructional supplies; therefore, they should be receipted into the General fund for use in all instructional supplies/services.

Lifetouch picture commissions were being placed in the Activity Fund. Commissions received should be receipted to the General Fund.

There was still a balance in the Class of 2005 account. This account should have the remaining money in it redistributed to other accounts in the Activity Fund.

We noted the following Student Activity Fund accounts that appear instructional in nature based upon expenditures made for instructional field trips and supplies: Elementary Classes, Middle School Classes, Preschool, TAG fund balance, and AED Grant.

The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - Target donations and Lifetouch commissions will be placed in the General Fund. Class of 2005 funds will be redistributed to other activity fund accounts. Accounts will be reviewed and the appropriate persons will be informed of the procedural changes to comply with the recommendation.

Conclusion - Response accepted.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

II-A-07 Certified Budget - District disbursements for the year ended June 30, 2007, did not exceed budgeted amounts.

II-B-07 Questionable Disbursements - We noted during our audit that the District wrote checks for purchase of gift cards. The gift cards were given as prizes to students who were the top sellers for fundraisers. Flowers, massages and mugs were paid for from the Student Activity Fund as appreciation gifts to employees. Sales incentives and teacher appreciation gifts do not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - We will review procedures and make the necessary changes to comply with the recommendation.

Conclusion - Response accepted.

II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. However, we noted an employee was receiving a \$100 per month travel allowance that was not included on the employee's W-2.

Recommendation - The District should include the travel allowance on the employee's W-2.

Response - Procedures will be reviewed and adjustments made to comply with the recommendation.

Conclusion - Response accepted.

II-D-07 Business Transactions - Business transactions between the District and District officials and employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Connie Kephart, Bus Driver Spouse owns Kephart Construction	Purchased Services	\$11,798

In accordance with Attorney General's opinion dated November 9, 1976, the above transactions with the family members of the employees do not appear to represent a conflict of interest.

II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.



II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will provide the minutes within the time period required; however, we are unable to control the publishing dates.

Conclusion - Response accepted.

II-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-07 Financial Condition - The District has four deficit account balances in the Special Revenue, Student Activity Fund totaling \$12,578.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts. The District should investigate alternatives to eliminate these deficit balances.

Response - We will review procedures and make efforts to eliminate the deficits in the accounts.

Conclusion - Response accepted.

II-K-07 Local Option Sales and Service Tax Expenditures - According to Chapter 298.3 of the Code of Iowa, PPEL monies may be used for a purchase of a single unit of equipment exceeding \$500 per unit. According to the District's revenue purpose statement, local option sales and service tax money can be spent for PPEL type expenditures, thus falling within the same \$500 per unit of equipment restriction. From the Capital Projects Fund, we noted table and chair purchases totaling \$14,006.74. These expenditures, which are less than \$500 per single unit, are inappropriate from the Capital Projects Fund.

Recommendation - The District should make a corrective transfer of \$14,006.74 from the General Fund to the Capital Projects Fund for the unallowable cost of equipment.

Response - We will make the corrective transfer as recommended. In the future, we will monitor expenditures from this account to make certain that the expenditures are allowable according to Chapter 298.3 of the Code of Iowa.

Conclusion - Response accepted.

II-L-07 Authorized Check Signatures - We noted during our audit that one batch of checks written contained no signatures from District authorities, but the bank processed the checks anyway.

Recommendation - The Board President and Board Secretary are required to sign all checks written by the District to be in compliance with Chapter 291.1 of the Code of Iowa. The Board President may, however, designate an individual other than him or herself to sign checks on their behalf. If the Board President designates another individual to sign on his or her behalf, this designation should be noted in the District's official minutes.

The bank should be made aware of this error and reminded that checks with no signatures should not be processed. These checks should be returned to the District where they could have been signed by proper personnel or voided and reissued.

Response - The bank was informed if this should happen again the checks should be returned to the District. We will review procedures to ensure that all checks are signed properly before being sent out.

Conclusion - Response accepted.